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ECONOMIC OUTLOOK

Despite of the recent financial turmoil, the major economies are still looking strong on the back of the fundamental data. Thus, the synchronized growth should continue in both developed countries as well as in the emerging markets. Although there may be some risk factors on the horizon we do not see any major threats for the coming months from the economic point of view. Analysts pointing to toppish sentiment indicators as well increasing inflation risks coming out from the US. However, the readiness for capex is still increasing in many areas. In the US the tax cut reform, the loose fiscal policy and plans for infrastructure renewals should further boost the US economy. These cyclical improvements are clearly reflected in the labour markets. Within major economies the unemployment figures are declining and are in some part at longtime low levels. In the US the current unemployment rate is at 4.1 percent – the lowest since 17 years whereas in the Eurozone we have seen a 9 year low at a rate of 8.7 percent. Thus, the employment outlook makes the consumers feel confident and will support its consumer spending which will contribute to a further self-amplifying cyclical upturn.

This week's highlight was definitely the semi-annual testimony of the Fed's new Chairmain Jerome Powell. The market reaction basically came down to the answer to a single question: He was asked directly about the path of rates and how that will develop in the months ahead. Markets currently indicate three interest hikes this year. His answer left markets undecided with a slightly more hawkish stance favouring four rate hikes instead of three. As a consequence, rates have moved up this year and it has not given the USD the desired tailwind. The market is increasingly concerned about the twin deficit and upbeat about the investments outside of the US.

Looking at the stock markets, we think it is still too early to switch over to a risk-off mode. Assuming that the current weakness is only a correction and is not about to enter a bear market, we are still confident for the coming months. Statistically speaking, since 1970 we have seen 14 market corrections which conducted to a loss of 13 percent on average. They lasted approximately three months; and four months after hitting the bottom the market losses has already been equalised. That means that a major chunk of the recent market correction of roughly 10 percent is already behind us. However, the probality of a quick recovery is not high and will take a while. As we mentioned, the stock markets remain on average three months in a phase of weakness. Nevertheless, we are positive in the medium term since the global economy is presenting itself in a good shape.

Mid-February gold benefited from a broad based USD weakness and hit a high which we have seen last in August 2016. Its further price development should also be decisive by the inflation-adjusted yields. The yields on the bond markets gained stronger than the inflation expectations. Should this trend continue, it is going to be a burden for the gold price since the opportunity costs are rising. However, the risk aversion may prompt investors to increase its gold exposure. This occurred just after the stocks plummeted at the beginning of February. Oil got under pressure amid the financial turmoil but rectraced meanwhile. However, physical markets still show that in some areas it cannot find sustainable demand. Further downward pressure may occure as US may become the global leader in oil production this year.

The markets are still in risk mode, but with higher volatility, therefore we recommend buying equities.

TACTICAL ASSET ALLOCATION

Liquidity	Neutral
Bonds	Slight underweight
Equities	Overweight
Alternative Investments	Neutral

EQUITY INDICATORS

Valuation	Attractive
Momentum	Attractive
Seasonality	Attractive
Macro	Attractive

Should you require further information or advise, please do not hesitate to contact your Clarus Capital relationship manager.

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MARKET OVERVIEW AS OF THURSDAY, 01 MARCH 2018, 4:08 PM

FIXED INCOME

	Rate	Δ 1m	Δ 3m	Δ ytd
USD Overnight	1.45	0.01	0.26	0.02
USD 1y Swap	2.32	0.21	0.55	0.43
USD 3y Swap	2.66	0.14	0.59	0.49
USD 5y Swap	2.76	0.10	0.58	0.51
USD 10y Swap	2.88	0.05	0.52	0.48
EUR Overnight	-0.36	0.00	0.00	-0.02
EUR 1y Swap	-0.25	0.01	0.01	0.01
EUR 3y Swap	0.08	-0.01	0.15	0.07
EUR 5y Swap	0.45	-0.04	0.25	0.14
EUR 10y Swap	1.08	-0.01	0.29	0.19
CDX Xover 5y	1.07%	-0.01%	-0.01%	-0.02%
iTraxx Xover 5y	2.64%	0.25%	0.32%	0.31%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
USD Deposit 1m	0.1%	0.4%	0.7%	0.3%
USD Aggregate 1-3y	-0.1%	-0.4%	-0.6%	-0.4%
USD Aggregate 3-5y	-0.2%	-1.3%	-1.9%	-1.2%
USD Aggregate 5-7y	-0.4%	-1.7%	-2.0%	-1.7%
USD Aggregate 7-10y	-0.6%	-2.3%	-2.6%	-2.5%
EUR Overnight	0.0%	-0.1%	-0.2%	-0.1%
EUR Aggregate 1-3y	0.0%	-0.2%	-0.2%	-0.1%
EUR Aggregate 3-5y	0.1%	-0.7%	-0.3%	-0.2%
EUR Aggregate 5-7y	0.1%	-1.3%	-0.4%	-0.6%
EUR Aggregate 7-10y	0.1%	-1.9%	-0.3%	-0.9%
US Corp. HY	-0.8%	0.0%	1.1%	-0.3%
EUR HY	-0.6%	-0.5%	0.4%	-0.4%

EQUITY

	Price	P/E	D. Yield	FCF yield
MSCI World	5,983	16.2	2.5%	4.8%
S&P 500	2,714	17.4	2.0%	4.2%
NASDAQ	6,854	20.6	1.0%	4.1%
Euro Stoxx 50	3,439	13.7	3.7%	11.1%
SMI	8,906	15.7	3.6%	7.2%
FTSE 100	7,232	13.7	4.4%	7.5%
DAX	12,436	12.9	3.2%	6.6%
MSCI Asia Pacific	177	13.8	2.6%	3.8%
FTSE China A50	13,420	11.1	2.7%	20.4%
MSCI Emerging Market	1,195	12.8	2.7%	6.1%
PH Semiconductor	1,362	15.8	1.6%	4.6%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
MSCI World	-4.1%	2.7%	8.5%	0.9%
S&P 500	-3.8%	2.7%	9.6%	1.5%
NASDAQ	-0.7%	8.2%	14.5%	7.2%
Euro Stoxx 50	-3.9%	-2.5%	-0.1%	-1.9%
SMI	-4.1%	-4.0%	-0.4%	-5.1%
FTSE 100	-3.5%	-0.9%	-2.8%	-5.9%
DAX	-4.4%	-3.3%	2.4%	-3.7%
MSCI Asia Pacific	-3.8%	4.4%	10.1%	2.0%
FTSE China A50	-7.7%	3.3%	11.2%	1.7%
MSCI Emerging Market	-4.3%	7.1%	9.5%	3.2%
PH Semiconductor	0.5%	8.2%	21.7%	8.7%

COMMODITY

	Price	FCST 17	FCST 18	Δ Future
Gold	1,316	1258	1301	-2.2%
Silver	16.36	17.1	17.3	3.8%
Platinum	980	951	969	-2.6%
Palladium	1,038	855	1014	-2.2%
Crude Oil	61.74	50.6	60.0	-0.3%
Brent Oil	64.81	54.0	63.8	-0.3%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
Gold	-2.1%	2.9%	-0.8%	0.5%
Silver	-5.2%	-0.6%	-9.0%	-5.0%
Platinum	-2.8%	3.7%	-3.6%	4.4%
Palladium	1.6%	2.8%	7.2%	-1.4%
Crude Oil	-5.8%	6.1%	24.2%	2.2%
Brent Oil	-6.5%	3.0%	21.7%	-1.9%

FOREIGN EXCHANGE

	Price	FCST 17	FCST 18	Δ Spot
EUR/USD	1.2206	1.1700	1.2700	4.0%
GBP/USD	1.3757	1.3200	1.4200	3.2%
USD/CHF	0.9445	0.9900	0.9400	-0.5%
USD/JPY	106.81	113.00	110.00	2.9%
EUR/CHF	1.1529	1.1600	1.1800	2.3%
USD/RUB	56.45	58.73	56.50	0.1%
EUR/RUB	68.88	68.40	70.57	2.4%

	Δ 1m	Δ 3m	Δ 6m	Δ ytd
EUR/USD	-2.4%	2.6%	2.9%	1.7%
GBP/USD	-3.6%	2.1%	6.2%	1.8%
USD/CHF	-1.9%	3.4%	2.1%	3.2%
USD/JPY	2.4%	5.0%	3.2%	5.5%
EUR/CHF	0.5%	0.7%	-0.8%	1.5%
USD/RUB	-0.9%	4.3%	1.9%	2.1%
EUR/RUB	1.6%	1.7%	-1.0%	0.6%

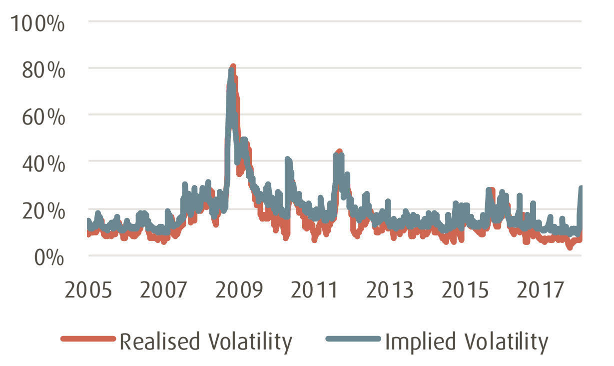
Source: Clarus Capital Group, Bloomberg

THEMES IN THE SPOTLIGHT

VOLATILITY

The biggest weasel word in central banking is 'volatility'. It all depends on the sender: when central bankers complain about currency 'volatility' it is almost always currency strength. Used on a broader basis, it is most of the time equity volatility and down-side volatility e.g. stock market losses. Central bankers and investors are comfortable with smooth and steady exchange rates and dislike uncertainty and volatile rates.

Realised vs. Implied Volatility



Source: Bloomberg, Clarus Capital Group

In financial markets you must differentiate between realised volatility and implied volatility. For realised you look backward and calculate the volatility based on historical prices. Implied volatility is a market estimation of the future volatility. Normally implied volatility trades at a premium of two percent compared to realised volatility.

It also depends on the time frame you measure, shorter periods such as 30 days can normally reach higher tops than longer measured periods. However, one thing is sure, volatility cannot go below zero. In equity markets volatility ranges from 5 to 80 percent (during the financial crisis) for a 30-day period and 10 to 45 percent for a one-year period. Volatility shows strong sign of mean reversion: usually after periods of high volatility it is assumed to decrease and vice versa. As uncertainty is normally higher before the weekends (political decisions e.g. Italian elections), volatility calms down on Monday.

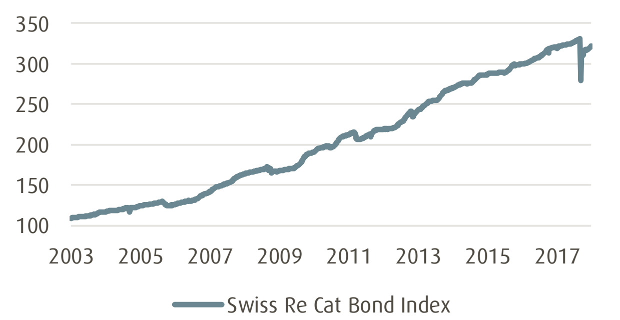
INSURANCE-LINKED SECURITIES

During market turmoil investors are looking for low correlated asset classes. But the recent market correction left almost no place to hide. Only gold or USD offered some shelter. However, securities linked to insurance-risk might help thanks to their low correlation to fixed income as well as equity markets. The payoff of an insurance-linked security is like a bond: the investor receives a coupon calculated by the current short-term interest rate and a premium (LIBOR plus Premium). Instead of bearing counter-party risk, the investor absorbs insurance risks. These events can be linked to catastrophes (Wind, earthquakes, floods), life-related (longevity, mortality, etc.) and non-life related risks (Aviation, marine, crop failure). The market has been developing out of the need to satisfy the increasing requirement from re/insurers to transfer risk to capital markets. Re/insurers are being compelled by regulation to reduce risk on their balance sheets.

Due to these features, investors are facing fat-tail risks which can be also seen in the chart illustrated by the Swiss Re Cat Bond Index. We have a steady and smooth performance until an event arrives. For example, the last hurricane season led to a maximum draw-down of -15% wiping out the gains of almost the last three years. After uncertainty about the losses has vanished it soon recovered.

Conservative structures e.g. UCITS funds are expected to yield a premium of 4-6% p.a. depending on how well diversification has been established. US cat risks normally pay off higher premium than other regions. Due to the events last year premiums should be set at higher levels than the years before.

Insurance-linked Securities



Source: Bloomberg, Clarus Capital Group

Not only do investors bear fat-tail risks but must also accept lower liquidity. This can range from two weeks to longer periods depending on the instruments and their respective investment strategy.

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IMPRESSUM

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